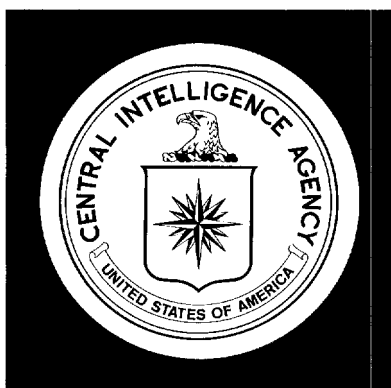


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DIRECTORATE OF  
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VIETNAM: The International Conference on Vietnam that convenes in Paris on 26 February will probably be a short, largely pro forma meeting. The gathering, at the foreign minister level, is to put the final cap on the network of supervisory bodies provided in the Paris accords. The past few weeks have seen a spate of diplomatic activity designed to develop a basis of agreement among the 13 participants before the formal sessions begin. Disputes could still disrupt the proceedings, but it currently appears that the conference in fairly short order will ratify the accords and establish some mechanism to which the supervisory teams can report.

The participants--the five permanent members of the UN Security Council, the four countries furnishing personnel to the International Commission for Control and Supervision, the three Vietnamese parties, and UN Secretary General Waldheim--could most easily run into difficulties over the question of the supervisory mechanism. It is clear that the Vietnamese Communists want responsibility for the maintenance of the accords to rest essentially with the four former belligerents, with outside interference kept to a minimum. They have been particularly firm in opposing any involvement by the UN or other international institutions--a stand that explains their unwillingness to see Waldheim named chairman of the conference.

Moscow and Peking have echoed some of the Vietnamese Communist demands, but their basic aims at the conference differ from those of their Vietnamese allies. The Soviets are looking for some sort of implicit guarantee of their postwar right to be involved in Indochina, but both Peking and Moscow want to defuse Vietnam as an important issue in big-power politics. Neither will want to give the impression in public of opposing the Vietnamese Communists, but both will probably work behind the

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scenes to prevent hangups over trivial details. They seem to want a conference communiqué that expresses strong but general support for the accords, backed perhaps by private understandings to supplement arrangements for continuing supervision.

The Thieu government has been reticent in public about the conference, but it has implied that it wants more stringent guarantees against Communist encroachment than it seems likely to get. If President Thieu is dissatisfied with the results of the conference, he might refuse to associate himself formally with it. So far, however, the note of deep concern that surfaced in the official and semi-official press last fall has been absent from current output, suggesting that Thieu, like the other participants, will be willing to live with the results. Most of the other participants seem likely to play a secondary role, although some--the French and the Canadians--might perform a useful service as go-betweens.

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[MBFR: A negative formal reply by the East to the NATO probe on the question of Hungary's status in the talks--foreshadowed by Wednesday's negative reaction--will toss the issue back to the North Atlantic Council.

The allies' position, essentially designed to provide the Soviets a way to back down if they desired, was presented by the US and Dutch representatives in Vienna to their Soviet and Hungarian counterparts on Wednesday. The Hungarian described the position as "old wine in new bottles," and the Soviets responded in equally negative terms.

The Dutch spokesman went beyond the agreed NATO instruction to comment that the Western interest in Hungary's participation was stronger with respect to "related agreements" than to force reductions. The comment reflected recent Dutch efforts in NATO to gain assurance that if Hungary is excluded from the reduction zone--as the Soviets wish--it will be included in a broader constraints area. This would be intended to deter the USSR from augmenting its forces in Hungary while reducing them elsewhere.

This latest exchange moves the Hungarian problem back to square one, with only the slightest chance that the Soviets will agree to including Hungary in the initial reduction zone without also including Italy. The deadlock will increase support in NATO, particularly among the flank states, for the US proposal to leave the status of Hungary in abeyance in order to get plenaries started. Recent Soviet statements suggest that even this will not satisfy Moscow. Many allies still feel, however, that there is no urgent need to compromise. The British in particular wish to continue a leisurely pace.]

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) The allies' caution reflects in large part their perception that the US proposal is only the first step toward accepting Hungary's exclusion from the initial reduction zone. They may in the end agree to this, but not without further probing for flexibility in the Soviet position. In particular, the Dutch, with Belgian and West German support, can be expected to continue their efforts to ensure that Hungary will at least be included in a constraints zone.

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EGYPT-USSR: Egyptian presidential adviser Hafiz Ismail, who is now in Washington, apparently presented no new ideas for a Middle East settlement during his trip to Moscow early this month.

According to Soviet Ministry of Foreign Affairs official Pyrlin, Ismail told the Soviets that Egypt continued to reject plans for a "partial" settlement not clearly linked to an over-all solution. Egypt demands that Israel ultimately withdraw from all Egyptian territory, according to Pyrlin, and insists that there be no change in the Egyptian or Syrian borders. Some border modifications between Israel and Jordan, however, would be tolerable.

The Soviet official stated that Cairo would accept the results of an internationally supervised plebiscite on the fate of the Gaza Strip after the Israelis withdraw. International control over Sharm ash-Shaykh on the southern tip of the Sinai is also acceptable to the Egyptians, but Pyrlin stated that Ismail gave an "unclear" response when asked if Cairo could accept Israeli participation in such international arrangements. An Egyptian Embassy officer in Moscow, however, who recently related a very similar account of Ismail's activities, said that Israel must not be included in any control group. The Egyptian also stated that Cairo will insist on "some kind of presence" on the east bank of the Suez Canal in any arrangement to open that waterway.

The Soviets think Ismail is coming to Washington primarily "to listen" and to obtain details on US views of a settlement, particularly the relationship between an interim canal opening and an over-all settlement. Ismail expressed his opposition to separate Jordanian or Egyptian settlements and will presumably make this point while in the US.

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Moscow continues to support the idea of a "phased" settlement as expressed in its 1969 proposals, but in his conversation Pyrlin insisted that this must be linked to an over-all settlement if the Egyptians are to accept it. Although the communiqué following Ismail's visit offered only weak Soviet "understanding" for Egypt's rejection of a partial solution, the Soviet official claimed to have advised the Egyptians against less than a full settlement. Pyrlin also alleged that Moscow is eager to reactivate the Jarring mission, perhaps through four-power guidelines, but no mention of his mandate was made in the statement issued following Ismail's visit.

Pyrlin's remarks on the Soviet and Egyptian positions are in accord with what both parties have been saying in public and private over the past several years. He probably wanted to make clear at this stage, with Ismail about to undertake high-level discussions in Washington, that Moscow and Cairo are in close agreement on the requisites of a political settlement. Pyrlin's statement that Moscow had urged Cairo not to accept a partial settlement may have been intended to reduce speculation engendered by the communiqué that the two parties were in less than full agreement on this aspect. During conversations in London earlier this week, Ismail did indeed reject the idea of an interim agreement under US auspices and hewed to well-known Egyptian views on other aspects of a settlement.

Moscow's relations with Cairo were described as "normal" but some coolness is still evident. Ismail reportedly invited Brezhnev to Cairo--the fourth such invitation received--but Pyrlin did not think a Soviet leader would visit Egypt this year. Unconfirmed Arab press sources have claimed

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Foreign Minister Gromyko or Defense Minister Grechko would visit Egypt soon. Egyptian Foreign Minister Zayyat's projected trip to the Soviet Union has apparently been postponed for two or three months at Cairo's request. An Egyptian military delegation, however, will soon visit Moscow according to the Egyptian official, but he emphasized Cairo has no intention of allowing the reintroduction of a large Soviet military presence into Egypt. No date for a visit to Moscow by Jordan's King Husayn has reportedly been set either, although the visit has been agreed upon in principle.

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INTERNATIONAL MONETARY DEVELOPMENTS: The gold price soared to a record high in London yesterday, and major European currencies strengthened against the dollar.

The gold price rose to over \$90 an ounce yesterday, an appreciation of over 31 percent from the pre-devaluation level, before profit-taking by speculators forced the price down to \$86.50 at the close of the day. Money managers, who are still uneasy about the future of the major currencies, have been buying gold as a hedging medium with the dollars obtained from divesting earlier speculative holdings. The record price of gold apparently reflects strong speculator demand from Middle Eastern and Far Eastern interests and new rumors that Japan will ease restrictions on gold imports.

The general uncertainty also produced some strengthening of major currencies against the dollar in Europe yesterday. The mark rose from its floor to near its new dollar parity, and there were no dollar sales by the Bundesbank for the first time in four days. In Switzerland, the Swiss franc closed at almost 18 percent above its old dollar parity, the greatest appreciation of any currency to date. No intervention was reported by the Swiss National Bank, which apparently is not inclined to take in any more unwanted dollars. Only in Tokyo did the dollar remain essentially unchanged. [REDACTED]

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DISARMAMENT: Several delegations to the Geneva arms talks, including the Soviet Union, have reaffirmed the priority they attach to progress on chemical weapons limitations and a comprehensive test ban.

In his opening speech to the session that reconvened this week, Soviet chief delegate Roshchin introduced a nuance in his country's position on a complete cessation of nuclear testing. He said that negotiations on such a ban would "require the participation of all nuclear states" in order that the "existing correlation of forces" not be upset. He also remarked privately that the number of nuclear parties to an agreement is a question of principle that his government is currently reviewing. If only some participate, according to Roshchin, the balance of power could be affected. Yet insistence on all five nuclear powers might make "intermediate steps" more difficult.

Roshchin also told his US counterpart that an accord on chemical weapons is the subject on which progress is most likely this year and that if no positive action is taken, the conference--which is so "useful and practical"--would be in jeopardy. He said, however, that the USSR cannot be expected to take new initiatives on chemical weapons because it already has a draft treaty before the conferees. Alluding to the absence of a specific US proposal, Roshchin concluded that "the bull is inside your gate." His presentation suggested that the Soviets might consider a more limited approach to curbs on chemical weapons should the US propose it.

The Japanese consider a comprehensive test ban to be the most significant item on the agenda and plan to stress the importance of making at least some progress in this area. They are also considering a move that they hope might advance a chemical

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weapons ban. They may advocate a measure that is limited in terms of the activities prohibited and the agents curtailed.

Other delegations have expressed concern that if this session does not produce some progress on the chemical weapons and comprehensive test ban issues, the Geneva talks might be substantially revamped or even abandoned. The Canadian delegate cautioned that a failure to make headway this time could give rise to moves for reorganization and stimulate new interest in a World Disarmament Conference.

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CONGO: Brazzaville faces more turmoil as President Ngouabi reacts to the discovery of an apparently serious plot against him.

Claiming to have uncovered another plot against his northern-based regime by former Lieutenant Diawara, an extremist from the south who instigated an abortive coup last February, Ngouabi has disarmed and dissolved the suspect national police force and placed some 25 persons under arrest. Included are two members of the party central committee, the information minister, and a number of army officers and secondary students. Three French teachers also stand accused. Ngouabi has promised a thorough purge of the army and is threatening to execute key plotters. Meanwhile, the search for Diawara, who has evaded capture for a year, is being intensified.

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In ferreting out the Congolese and any outsiders allegedly involved, Ngouabi is likely to aggravate the Congo's factional and tribal cleavages. He may also antagonize Zaire, with whom relations have not normalized since 1970 when Mobutu did support a coup attempt against Ngouabi.

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EC: To accommodate the lira float, the EC has extended to Italy the Common Agricultural Policy's compensatory adjustment system that is in effect in the UK and Ireland. The system establishes special import levies and export subsidies for trade in grains and other agricultural products subject to the EC's variable import levies. The levies and subsidies, which vary according to exchange rate fluctuations, enable Italy and the UK to maintain normal trade in these products and to avoid raising internal support prices for them. With the extension of the compensatory system to Italy, the Common Agricultural Policy now has three price zones. This purportedly is the reason that the deadline for fixing new EC support prices has been postponed from 1 April to 1 May. The political sensitivity of discussing EC agricultural prices with French elections scheduled for March, however, probably made a postponement almost inevitable.

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NORWAY-EC: Negotiations on an industrial free trade agreement now under way should reduce uncertainties in Norway's business community and prompt increased industrial investment. Norwegian uncertainties last year before the referendum on EC membership and its eventual rejection helped to precipitate a decline in industrial investment and economic growth. Negotiations with the EC should assuage business fears that Norway would be excluded from EC arrangements liberalizing industrial trade with most of the members of the European Free Trade Association (EFTA). The negotiations should proceed smoothly because the two parties' positions are already in close accord. The remaining difficulties concern the period of transition for trade involving certain sensitive goods and the items to be included in that category. Oslo hopes to conclude negotiations so that agreement will be effective by 1 April, thereby securing EC tariff reductions at the same time as those scheduled for the other EFTA countries which have signed EC trade agreements.

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VENEZUELA: The Organization of the Petroleum Exporting Countries has agreed to a special meeting on 16 March to discuss the world energy crisis. Venezuela has pushed for such a meeting, but has been vague on specific proposals it will put forward. It will probably discuss the recent devaluation of the US dollar and its effect on OPEC oil revenues. Also, the Venezuelan Minister of Petroleum has indicated privately that the time is ripe for a major change in the relationship between the oil exporting countries and the industrialized nations. Caracas may, therefore, renew its suggestion for a meeting between oil consumers and suppliers to discuss common problems.

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